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U.S. Bureau of Foreign and Domestic Commerce

Factors in wheat marketing

Washington

1927

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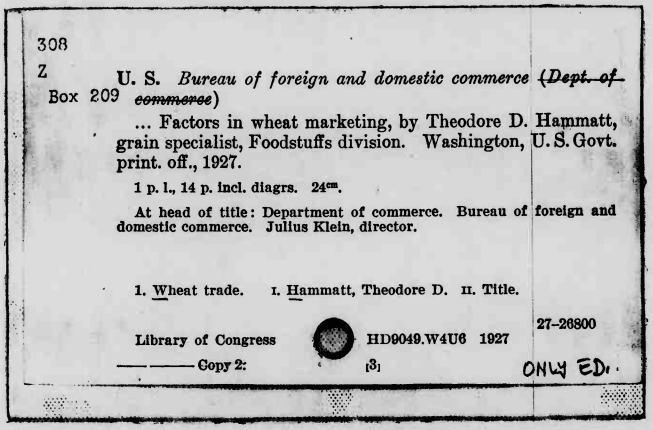

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... Factors in wheat marketing, by Theodore D. Hammatt, grain specialist, Foodstuffs division. Washington, U. S. Govt. print. off., 1927.

1 p. l., 14 p. incl. diagrs. 24cm.

At head of title: Department of commerce. Bureau of foreign and domestic commerce. Julius Klein, director.

1. Wheat trade. I. Hammatt, Theodore D. II. Title.

Library of Congress HD9049.W4U6 1927 27-26800

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FACTORS IN WHEAT MARKETING

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Box 209

By

THEODORE D. HAMMATT
Grain Specialist, Foodstuffs Division

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON
1927

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FACTORS IN WHEAT MARKETING

Wheat is grown throughout the temperate zones—3,500,000,000 bushels of it. Sowing and harvesting are almost continually in progress somewhere. Production is statistically reported for more than 60 countries. But no country raises as much as 30 per cent of the world's crop. The overseas movement of wheat and flour, an important factor in the export price, flows from Canada, the United States, Argentina, Australia, and from other countries which together

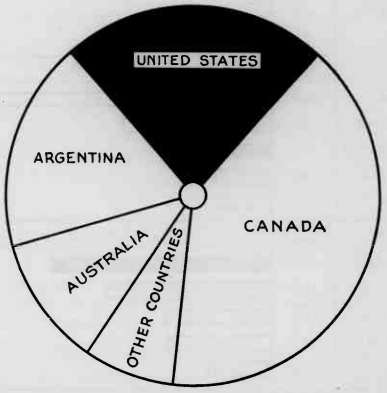


Chart I.—Net exports of wheat, including flour, from all countries. Average (August–July) 1922–23 to 1925–26

ship less than either of the big four. From 1922–23 to 1925–26 (crop years August to July) Canada furnished about 39 per cent of the net exports; the United States, 23 per cent; Argentina, 18 per cent; Australia, 11 per cent; and other countries, 9 per cent. As the United States controls on the average less than 25 per cent of the international movement, it is obvious that the United States is not in position to control the export price.

Chart I shows the important, but far from dominant, position held by each of the chief sources of wheat and flour in export trade.

Chart II shows the relative importance of each of the chief sources of supply each year from 1922–23 to 1925–26.

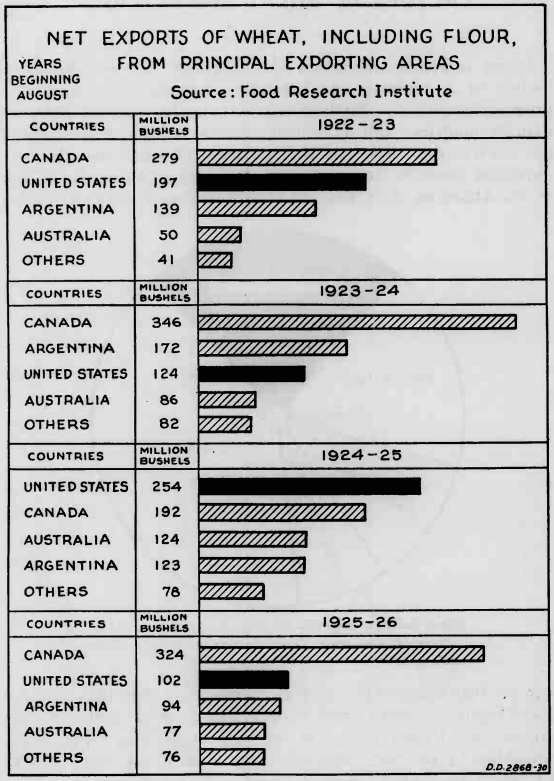


Chart II

Considering only the principal sources of supply, direct competition is found in the export marketing of United States and Russian surpluses during the peak of the movement between July and November, a condition intensified by the introduction of new Canadian wheat in

October. These three shippers, plus old crop Southern Hemisphere balances and such minor contributions as the Danube and Balkan areas can offer, normally have on August 1 a total surplus equal to nine months' world import needs, or an amount ample for consumptive requirements pending the arrival of Argentine and Australian surpluses in volume toward the end of February or early March. Supplies from both the latter countries are directly competitive during the spring months. Canadian lake navigation is again open by May and the Indian crop becomes available for consumers in June, and thus the cycle is complete.

Wheat in commerce is a most fluid commodity. Competitive commercial practice based upon the seasonal succession of harvests around the world and the requirements of importing countries has brought about a remarkably orderly overseas movement. Considered as a whole, the international movement of wheat and flour shows

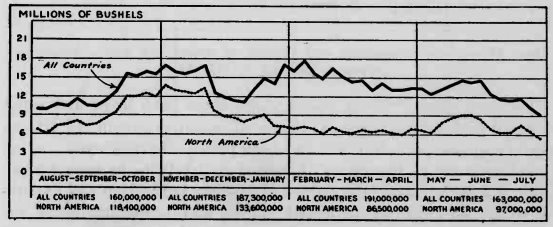


Chart III.—Shipments of wheat, including flour, from principal exporting countries and from North America. Four-year average, 1922–23 to 1925–26. Compiled from Broomhall's reports

little dumping. The average "world shipments" of wheat and flour quarterly, expressed as percentages of the annual movement, for the four crop years 1922–23 to 1925–26 have been as follows: First quarter 22.8 per cent, second quarter 26.7 per cent, third quarter 27.2 per cent, and fourth quarter 23.2 per cent. Chart III shows graphically the regularity of the movement.

In Canada, Argentina, and Australia wheat is grown chiefly for export, but for the American farmer the domestic market is far more important than foreign markets. For the crop years 1922–23 to 1925–26 net exports of wheat (including flour) from the United States have amounted to only about 21 per cent of production, whereas during the same period Canada has exported about 74 per cent of her crop; Australia, 68 per cent; and Argentina, 64 per cent.

Chart IV indicates the relative importance of export trade to each of the major surplus producing countries.

The relative encouragement given to wheat growing in each of these four countries by the prices obtainable since the war is suggested by Chart V, which shows a decrease in acreage in the United States of about 21 per cent from 1919 to 1926 accompanied by increases of 13 per cent in Canada, 12 per cent in Argentina, and 26 per cent in Australia.

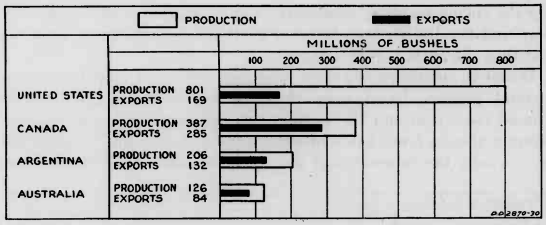


Chart IV.—Wheat production and exports of wheat and flour. Four-year average, 1922–23 to 1925–26

The crop years 1923–24 and 1924–25 cover both large and small crops of each of the principal classes of wheat grown in the United States and also periods of low and high prices. This two-year period therefore contains the range of conditions likely to be encountered. Chart VI, which shows the estimated average production and exports of wheat as grain by principal classes and producing areas for

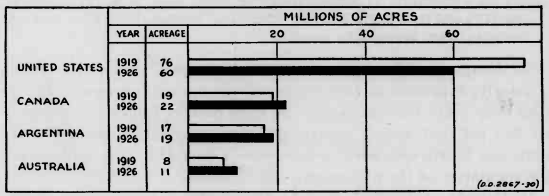


Chart V.—Wheat acreages in 1919 and 1926

the two years, indicates that export trade is important mainly to the Pacific white wheat area, the northwestern durum wheat area, and the southwestern hard winter wheat area. In recent years the production of hard spring wheat other than durum and of soft winter wheat of good milling quality has not greatly exceeded domestic requirements.

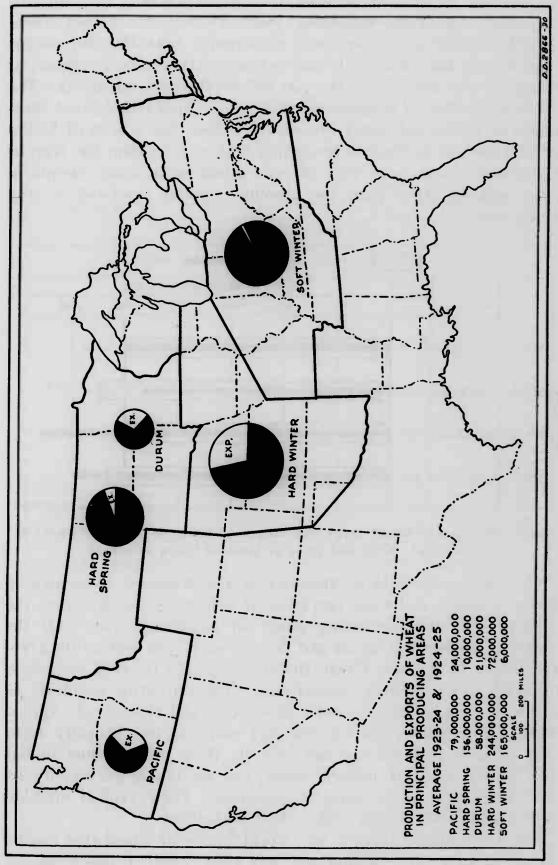


Chart VI

The four-year experience illustrated by Chart VII shows the effect on the general level of wheat prices, from one year to the next, of an increase or decrease in the world's crop as compared with the crop of the preceding year. During this period whenever the world's crop increased, as compared with the crop of the year before, the price fell; and whenever the crop decreased, as compared with the crop of the year before, the price advanced. The cumulative effect of a succession of large or small crops is not illustrated in the period under review. The fact that a crop of 3,348,000,000 bushels in 1925–26 brought a higher price than the crop of 3,146,000,000 bushels in 1922–23 calls attention to many factors in price making other than the absolute amount produced in any given year.

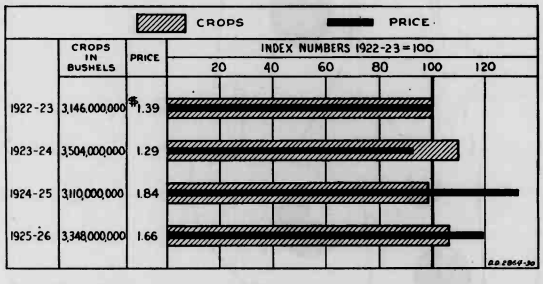


Chart VII.—World wheat crops and crop-year prices of contract wheat at Liverpool. Crop and price of 1922–23 taken as a base

On the supply side of the market the strongest price-making factor is likely to be the surpluses of exporting countries; on the demand side, the purchasing power of importing areas. Of the overseas movement of wheat and flour about 85 per cent on the average lodges in Europe, Great Britain being the heaviest consumer. Contrary to a somewhat general impression, importing countries, as a rule, do not balance domestic production and theoretical requirements by purchases abroad, but buy more or less liberally from year to year as influenced not only by their own production but also by the price of foreign wheat, the abundance or scarcity of substitutes, and their financial condition. Their typical attitude is that of a careful buyer with a short pocketbook.

Strictly speaking there is no " world " price of wheat that can be expressed as a single quotation. For always and in every market there is a considerable range in prices. Perhaps the nearest approach to a basic or " world " price is the cost at Liverpool of a good

milling mixture for the manufacture of bread flour. Such a price is not quoted, nor is it readily calculable. And yet, primarily, it is the relative worth in such a mixture that largely determines from day to day the prices paid for the various types and grades that move internationally. There are 30 or more of these, with the price of each depending mainly upon the abundance, quality, and position of the supply available and in prospect. In Canada, the Argentine, and Australia domestic prices are usually the direct reflection of the condition of export trade. In the United States domestic prices are also strongly influenced by the domestic demand for wheat of exceptional milling quality.

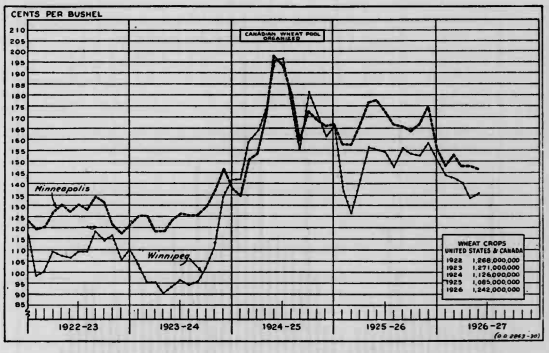


Chart VIII.—Monthly average prices of No. 1 northern wheat at Winnipeg and No. 1 dark northern at Minneapolis

In the wheat market conditions affecting prices change rapidly and during the last five years price fluctuation has been very great, notwithstanding the organization of selling pools in the United States, Canada, and Australia. Much more wheat was handled by pools in 1924–25 and 1925–26 than in 1922–23 and 1923–24, yet the fluctuation in the prices of representative wheats in Canada and the United States was wider in 1924–25 and 1925–26 than in the two preceding years. Chart VIII indicates the general price movement during this four-year period.

Chart IX, which bears upon the same point, shows wider monthly ranges in the Winnipeg market since the beginning of large-scale pool operations in 1924–25 than during the years 1922–23 and 1923–24. It will be noted that Charts VIII and IX relate simply to

price stabilization. They do not relate to the effect of pooling upon the farmers' net returns from primary market prices nor to the effect of pooling upon the relative prices of various wheats in international trade.

In our domestic markets certain conditions are found that are peculiar to the United States. As compared with that of any other exporting country, the home demand for wheat is enormous. Figuring our annual consumption of flour at one barrel per capita, the mills require about 550,000,000 bushels for their domestic trade. This requirement falls almost entirely upon hard spring, hard winter, and soft red winter varieties and especially upon top qualities.

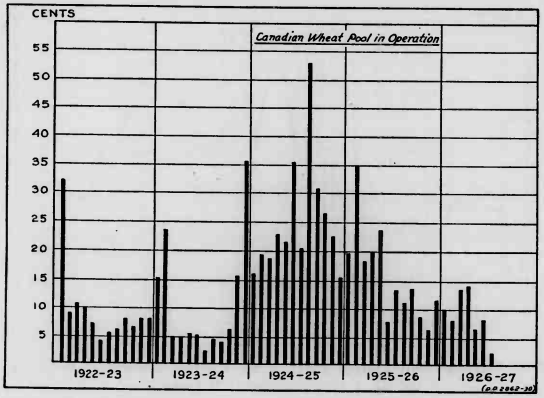


Chart IX.—Monthly range of cash prices for No. 1 northern wheat at Winnipeg, crop years beginning with August

American consumers desire good bread and flour and are willing and able to pay for it. The competition between millers for quality in their raw material is very keen. This results in premiums for fancy lots in American markets that do not appear in other exporting countries; at times, in prices at Minneapolis, Kansas City, and St. Louis far above the current price of high-grade Manitobas at Winnipeg. This condition is shown graphically by the charts that follow.

In Chart X, for which the daily high and low prices of No. 2 hard wheat at Kansas City have been averaged by months, the vertical lines show the average difference in price each month between wheat at the top and at the bottom of the grade.

Chart XI shows the difference between monthly average cash prices of wheat at the bottom of the No. 3 grade, at the bottom of the No. 1 grade, and at the top of the No. 1 grade at Minneapolis in recent years.

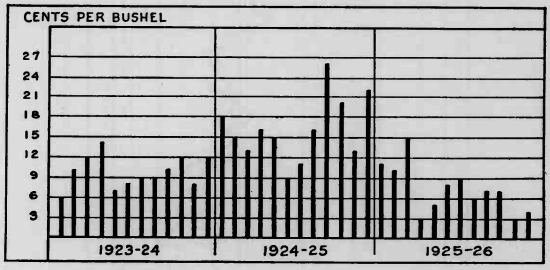


Chart X.—Spread between monthly average high and low prices of No. 1 hard winter wheat at Kansas City, crop years beginning July

Charts XII and XIII indicate the relative value of high-quality milling wheat in Canada and the United States from July, 1923, to the end of March, 1927. The price curves show the spreads between No. 1 dark northern at Minneapolis, No. 2 dark hard at

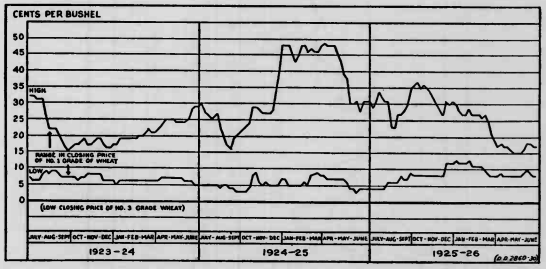
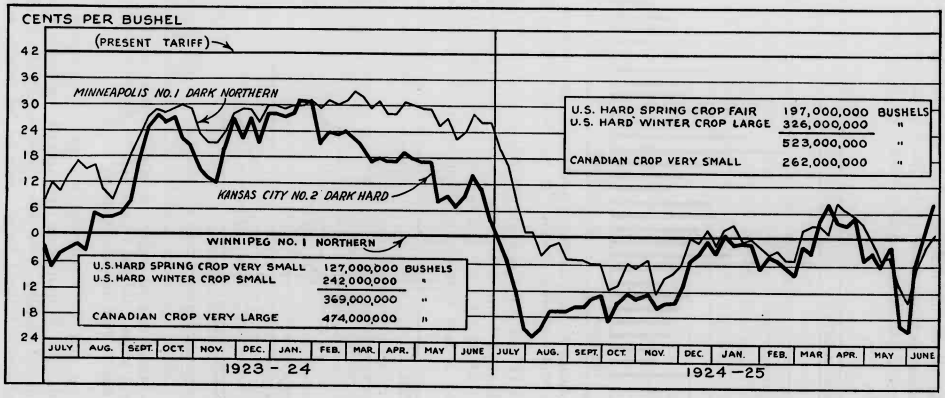


Chart XI.—Range in closing prices at Minneapolis of No. 1 grade wheat and spread between the No. 1 grade and the low closing price of No. 3 grade. Source: Food Research Institute

Kansas City, and No. 2 red winter at St. Louis as compared with No. 1 northern at Winnipeg on the basis of monthly average prices. The substantial support given wheat growing in the United States by the premiums obtained for superior lots of milling wheat is ap-



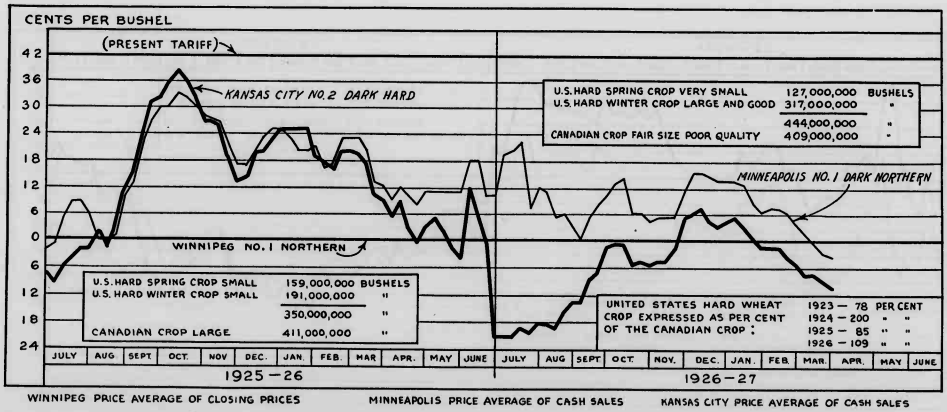
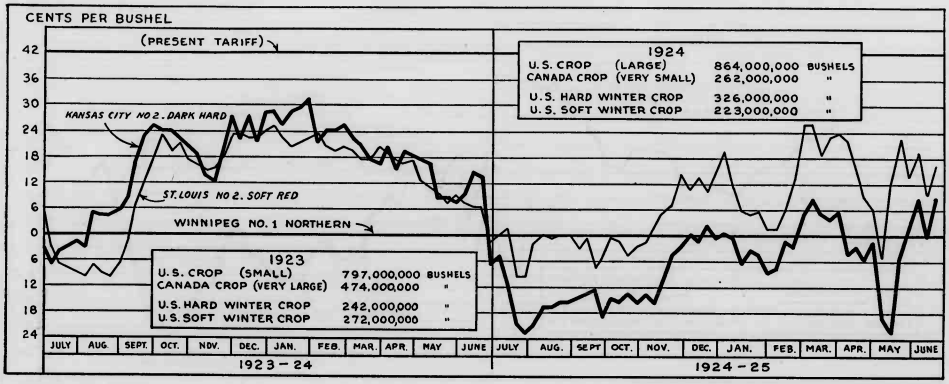

CENTS PER BUSHEL
(PRESENT TARIFF)
KANSAS CITY NO.2 DARK HARD
WINNIPEG NO. 1 NORTHERN
MINNEAPOLIS NO. 1 DARK NORTHERN
42
36
30
24
18
12
6
0
6
12
18
24
U.S. HARD SPRING CROP SMALL 159,000,000 BUSHELS
U.S. HARD WINTER CROP SMALL 191,000,000 "
350,000,000 "
CANADIAN CROP LARGE 411,000,000 "
U.S. HARD SPRING CROP VERY SMALL 127,000,000 BUSHELS
U.S. HARD WINTER CROP LARGE AND GOOD 317,000,000 "
444,000,000 "
CANADIAN CROP FAIR SIZE POOR QUALITY 409,000,000 "
UNITED STATES HARD WHEAT CROP EXPRESSED AS PER CENT OF THE CANADIAN CROP : 1923 — 78 PER CENT
1924 — 200 " "
1925 — 85 " "
1926 — 109 " "
JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE
1925 — 26
JULY AUG SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE
1926 — 27
WINNIPEG PRICE AVERAGE OF CLOSING PRICES
MINNEAPOLIS PRICE AVERAGE OF CASH SALES
KANSAS CITY PRICE AVERAGE OF CASH SALES

Chart XII.—Approximate spreads in weekly average cash wheat prices: No. 1 dark northern at Minneapolis, No. 2 dark hard at Kansas City, and No. 1 northern at Winnipeg


CENTS PER BUSHEL
(PRESENT TARIFF)
KANSAS CITY NO 2. DARK HARD
ST. LOUIS NO 2. SOFT RED
WINNIPEG NO. 1 NORTHERN
1923
U.S. CROP (SMALL) 797,000,000 BUSHELS
CANADA CROP (VERY LARGE) 474,000,000 "
U.S. HARD WINTER CROP 242,000,000 "
U.S. SOFT WINTER CROP 272,000,000 "
1924
U.S. CROP (LARGE) 864,000,000 BUSHELS
CANADA CROP (VERY SMALL) 262,000,000 "
U.S. HARD WINTER CROP 326,000,000 "
U.S. SOFT WINTER CROP 223,000,000 "
42 36 30 24 18 12 6 0 6 12 18 24
JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE
1923-24
JULY AUG. SEPT OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE
1924-25

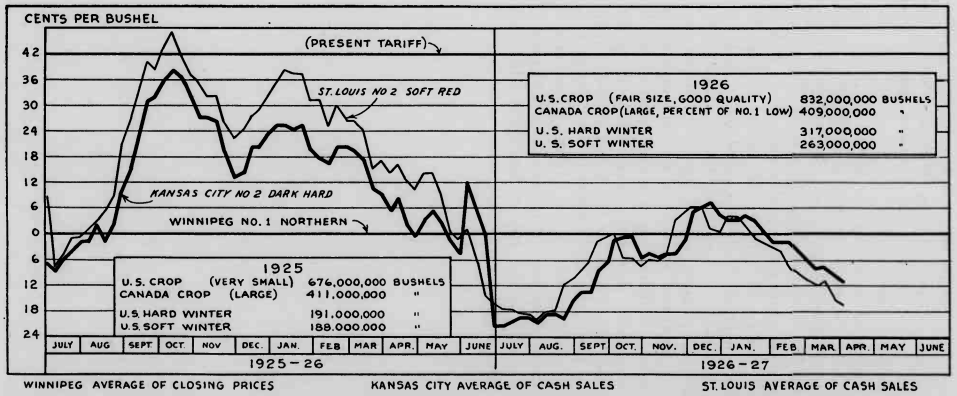

CENTS PER BUSHEL
(PRESENT TARIFF)
ST. LOUIS NO 2 SOFT RED
KANSAS CITY NO 2 DARK HARD
WINNIPEG NO. 1 NORTHERN
1925
U.S. CROP (VERY SMALL) 676,000,000 BUSHELS
CANADA CROP (LARGE) 411,000,000 "
U.S. HARD WINTER 191,000,000 "
U.S. SOFT WINTER 188,000,000 "
1926
U.S. CROP (FAIR SIZE, GOOD QUALITY) 832,000,000 BUSHELS
CANADA CROP (LARGE, PER CENT OF NO. 1 LOW) 409,000,000 "
U.S. HARD WINTER 317,000,000 "
U.S. SOFT WINTER 263,000,000 "
42 36 30 24 18 12 6 0 6 12 18 24
JULY AUG SEPT OCT NOV DEC. JAN. FEB MAR APR. MAY JUNE
1925-26
JULY AUG. SEPT OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE
1926-27
WINNIPEG AVERAGE OF CLOSING PRICES
KANSAS CITY AVERAGE OF CASH SALES
ST. LOUIS AVERAGE OF CASH SALES

Chart XIII.—Approximate spreads in weekly average cash wheat prices: No. 2 dark hard at Kansas City, No. 2 red at St. Louis, and No. 1 northern at Winnipeg

parent. These charts should be studied with the fact in mind that our production of high-protein hard spring and hard winter wheat and of top-quality soft winter wheat is usually short of the effective domestic demand for such wheat.

The commercial marketing system brings to bear upon wheat offered for sale in the United States the full force of the current demand from both domestic and foreign buyers. Speaking in terms of general conditions, each lot that goes to an American mill and each lot shipped out of the country takes the course it follows because, for that particular parcel, a miller has outbid an exporter or vice versa. Little or none of the crop is sacrificed by lack of competition within or between the trades dealing in the commodity. On the other hand, the principal motive force back of the movement of wheat through commercial channels is the hope of profit upon particular transactions. There is as yet no branch of the trade controlled by the growers themselves that effectively represents their common interest in securing for the year's available supply of superior milling wheat the full premiums over ordinary types that consumers can readily afford to pay. In this direction as well as in proper adjustment of acreage, reduction in costs of production, and elimination of wastes in distribution there appears to be a wide field for well-considered cooperative effort.

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